



SUBMISSION OF WRITTEN COMMENTS FOR THE HEARING RECORD
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SELECT REVENUE MEASURES

HEARING ON CERTAIN EXPIRING TAX CREDITS

APRIL 26, 2012

Mr. Chairman, Ranking Member Neal and distinguished Members of the Committee:

The Arctic Slope Regional Corporation (ASRC) is pleased to submit written comments for the record in connection with the April 26, 2012 hearing of the Committee on Ways and Means Subcommittee on Select Revenue Measures on the important topic of expiring tax provisions.

ASRC is an Iñupiat-owned Alaska Native regional corporation, formed pursuant to the Alaska Native Claims Settlement Act, 43 U.S.C. §1601, et seq. (ANCSA), that represents the interests of the Iñupiat Eskimos of the Arctic Slope. ASRC's congressionally-mandated mission is to invest in its land base and business interests to provide for the well-being of our Iñupiat Eskimo shareholders. ASRC owns approximately five million acres of land on the North Slope, including both surface and subsurface estate.

Relevant to these comments, ASRC owns and operates Petro Star Inc., one of three refining companies in Alaska, and the only Alaskan-owned, and small business refiner in the state. Petro Star has two refining facilities, one in North Pole and the other in Valdez, Alaska. In addition to jet and heating fuels, the Valdez location also produces ultra-low sulfur diesel fuel (ULSD) for the Alaska market as well as for U.S. DOD and USCG facilities in the state. This refinery is one of two producers of ULSD in Alaska which together can satisfy statewide demand for these products.

CURRENT LAW

EPA mandated that all refiners reduce the sulfur content of both motor vehicle and off road diesel fuels to 15 ppm. The final deadline for complying with the ultra-low sulfur diesel (ULSD) rules was June 1, 2007 for large refineries across the country. However, Small Business Refiners (SBR), including Petro Star, were given until June 1, 2010 to fully comply with these ULSD standards.

ULSD fuel enables the use of cleaner technology diesel engines and vehicles, resulting in significantly improved air quality, according to the Clean Diesel Fuel Alliance. Annual emission reductions will be equivalent to removing the pollution from more than 90 percent of today's trucks and buses. Tests completed by EPA and others show that using the advanced emissions control devices enabled by the use of ULSD fuel reduces emissions of hydrocarbons and nitrogen oxides (precursors of ozone), as well as particulate matter, to near-zero levels.

EPA studies conclude that ozone and particulate matter cause a range of health problems, including those related to breathing, with children and the elderly among those most at risk. EPA estimates that there are significant health benefits associated with this program.

Another environmental benefit is that ULSD fuel enables diesel-powered passenger cars and light trucks to meet the same stringent emissions standards as gasoline vehicles. Diesel-powered vehicles also tend to be more fuel-efficient than gasoline-powered vehicles.

While in the process of taking the necessary steps to comply with the EPA mandate, in December 2008, Petro Star's Valdez Refinery experienced a fire, causing significant damage to the process unit. Reconstruction of the damaged units was complicated by Valdez' severe winter weather conditions and remoteness, as well as long delivery times for specialized equipment items. Moreover, while reconstruction was proceeding, Petro Star was simultaneously working to design and install the process units necessary to produce ULSD. Running parallel engineering and construction projects of this magnitude represented a huge undertaking for Petro Star and undoubtedly helped delay completion of its new ULSD facilities until November 2010.

The costs associated with retrofitting Petro Star's Valdez refinery to produce ULSD ultimately reached \$160 million, confirming EPA's stated view that these modifications constituted "a significant and disproportionate financial hardship" for the nation's small refiners. To help SBR's overcome the financial burden associated with the EPA ULSD mandate, Congress included two tax provisions in the Energy Policy Act of 2003 to allow SBR's to recover up to 25% of the ULSD capital costs through a 5-cent per ULSD gallon tax credit, while also providing for accelerated depreciation of the remaining capital expenditures. Sections 45H and 179B, as they are respectively known, passed with strong bipartisan support and, thanks to them, many SBR's were able to justify the expense of the mandatory EPA retrofit. These same small refiners – a dying breed due to poor economies of scale and the disproportionate impact of government regulations - are of vital economic importance to rural communities throughout this country and provide fuel to many areas that have no other viable options. These facilities support hundreds of direct and indirect jobs while providing clean fuel critical for transportation, electricity, and heating.

Unfortunately, construction delays attributable to the Valdez fire and the puzzling mismatch between the SBR compliance deadline and the sunset date of 45H and 179B (June 1, 2010 and December 31, 2009 respectively) meant that much of Petro Star's otherwise qualifying ULSD capital costs were excluded from contributing the essential tax benefits that Congress intended.

PROPOSAL

Extend sections 179B and 45H for two years, effective January 1, 2010.



REASON FOR CHANGE

Extending the section 45H and 179B tax provisions will allow Petro Star (ASRC) and any other similarly positioned SBR meeting the EPA requirements to still capture the tax benefits Congress intended to partially offset the enormous capital costs and financial burden of compliance. Extension of 45(H), which by statute as written will also extend 179B, will help to ensure that SBR's that stepped up and complied with the federal environmental mandate will not suffer enduring financial harm which could further jeopardize the long term viability of these vital suppliers of diesel fuels to rural and remote areas.

Thank you for your time and consideration of this very important matter.

Sincerely,
ARCTIC SLOPE REGIONAL CORPORATION

A handwritten signature in black ink, appearing to read "T. Sweeney".

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